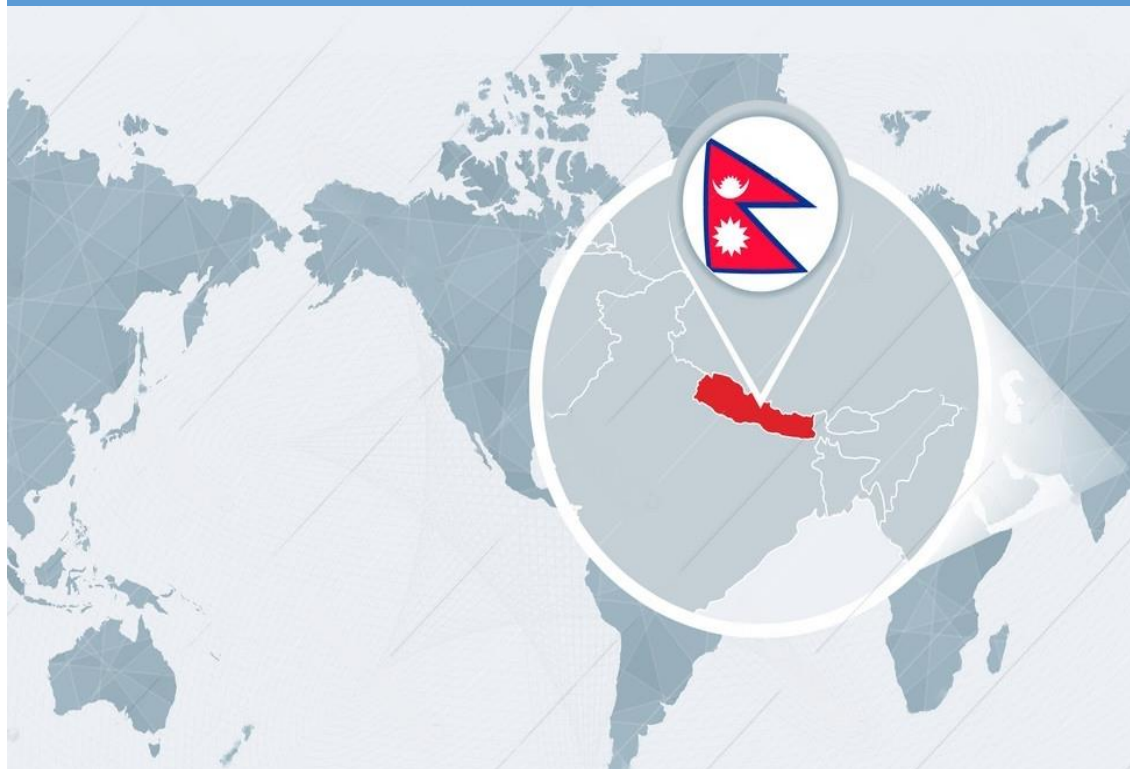


Sampanna Capital & Advisory Nepal Ltd.



NEPAL FDI GUIDE

This investor handbook outlines the basic information about foreign direct investment (FDI) in Nepal.



Why Nepal ?

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Abbreviation

AOA	Articles of Association
BFI s	Banks and Financial Institutions
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIT s	Bilateral Investment Treaties
CIB	Credit Information Bureau
CIETAC	China International Economic and Trade Arbitration Commission
DOI	Department of Industries
DCF	Discounted Cash Flow
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Transfer of Technology Act, 2075 (2019)
FITTA, 1992	Foreign Investment and Transfer of Technology Act, 2049 (1992)
FITTA Regulation	Foreign Investment and Transfer of Technology Regulation, 2077 (2021)
FY	Fiscal Year
HKIAC	Hong Kong International Arbitration Centre
IBN	Investment Board of Nepal
ICC	International Chamber of Commerce
IEA	Industrial Enterprises Act, 2076 (2020)
IEA, 1992	Industrial Enterprises Act, 2049 (1992)
IEA, 2016	Industrial Enterprises Act, 2073 (2016)
IMF	International Monetary Fund
IRD	Inland Revenue Department
ITA	Income Tax Act
JVA	Joint Venture Agreement
MOA	Memorandum of Association
MIGA	Multilateral Investment Guarantee Agency
LCIA	London Court of International Arbitration
NRB	Nepal Rastra Bank
NPR	Nepalese Rupees
OCR	Office of Company Registrar
SAFTA	South Asian Free Trade Area
TDS	Tax Deducted at Source
UNCITRAL	United Nations Commission on International Trade Law
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

Chapter 1: Foreign Investment in Nepal

Nepal welcomes foreign investment as a means to boost economic growth, promote technology transfer, and enhance the overall business environment. This chapter provides an overview of the regulatory framework, administration, implementation, and various forms of foreign investment in Nepal.

Regulatory Framework:

Foreign investment in Nepal is regulated by the Foreign Investment and Technology Transfer Act (FITTA) of 2019. This act provides the legal basis for foreign investment, technology transfer, and the protection of foreign investors' rights. FITTA defines the procedures, conditions, and sectors in which foreign investment is permissible. Additionally, Nepal has entered into Bilateral Investment Promotion and Protection Agreements (BIPPAs) with various countries to provide additional protections for foreign investors.

Administration and Implementation: The Department of Industry (DOI) under the Ministry of Industry, Commerce, and Supplies is the key administrative authority responsible for regulating foreign investment. The DOI evaluates and approves foreign investment proposals, monitors compliance, and provides necessary approvals for technology transfer agreements. It works in collaboration with other relevant government agencies to ensure a smooth investment process.

Forms of Foreign Investment:

Foreign investment in Nepal can take several forms:

1. **Foreign Equity Investment:** This involves establishing a new company or acquiring shares in an existing Nepalese company. The equity can be in the form of common shares, preferred shares, or other forms of ownership.
2. **Loan Investment:** Foreign investors can provide loans to Nepalese companies, which can be repaid with interest as per the agreed terms. Loan investments are subject to specific approval processes.
3. **Technology Transfer:** Foreign investors can transfer technology to Nepalese entities under approved agreements. These agreements outline the terms of technology transfer, including licensing, training, and related services.
4. **Joint Ventures:** Foreign investors can partner with Nepalese entities to form joint ventures for specific business activities. These joint ventures can be in various sectors and allow for shared ownership and responsibilities.
5. **Branch and Liaison Offices:** Foreign companies can establish branch or liaison offices in Nepal to facilitate market research, marketing, and liaison activities. However, these offices cannot engage in commercial activities directly.
6. **Investment in Public Companies:** Foreign investors can also invest in shares of public companies listed on the Nepal Stock Exchange, subject to certain restrictions and regulations.



Forms of FDI in Nepal

Each form of foreign investment is governed by specific rules, procedures, and documentation requirements as outlined by FITTA and other relevant regulations.

Foreign investors are encouraged to carefully consider the specific form of investment that aligns with their business goals and objectives. The regulatory framework and administrative procedures ensure transparency, protection of rights, and a conducive environment for foreign investors to contribute to Nepal's economic development.

As prospective investors explore the opportunities in Nepal, it's essential to engage with legal and financial advisors familiar with the country's regulations to navigate the intricacies of foreign investment and ensure compliance with all requirements.



Chapter 2: Permissible Industries for Foreign Investment

Foreign investors looking to engage in business activities in Nepal need to be aware of the industries in which foreign investment is permissible. This chapter outlines the categories of permissible industries, the maximum permissible foreign direct investment (FDI) limits, the approval authorities involved, and the key acts and policies governing each industry.

Permissible Industries: Foreign investment in Nepal is allowed in various sectors, subject to certain conditions and FDI limits. The categories of permissible industries include but are not limited to:

1. **Infrastructure and Construction:** This category encompasses transportation, energy, water supply, and urban development projects.
2. **Tourism:** Investments in hotels, resorts, travel agencies, and related infrastructure are allowed.
3. **Agriculture and Forestry:** Foreign investors can participate in agricultural production, livestock farming, agro-processing, and forestry.
4. **Manufacturing:** Various manufacturing industries such as textiles, garments, electronics, and pharmaceuticals are open to foreign investment.
5. **Information and Communication Technology:** This sector includes software development, IT services, and electronic communication services.
6. **Hydropower:** Nepal's abundant water resources provide opportunities for foreign investment in hydropower generation.
7. **Health and Education:** Investments in hospitals, clinics, educational institutions, and vocational training centers are permitted.
8. **Minerals and Mining:** Foreign investors can engage in the exploration and extraction of minerals and mining activities.



Categories and Maximum Permissible FDI:

The FDI limits vary based on the sector and business activity. While most sectors have liberal FDI caps, some sensitive sectors may have restrictions to ensure local participation and safeguard national interests. It's essential to review the latest regulations to understand the specific FDI limits for each industry.

Industry	Maximum FDI Permissible	Competent Authority	Relevant Acts & Policies	Remarks
Manufacturing	100%	Department of Industry	Industrial Enterprises Act, 1992	No additional procedures required except for certain industries which require special permission
Financial Services/Banks and Finance Companies and Branch Office of a Foreign Bank	(20 to 85)%	Nepal Rastra Bank	Nepal Rastra Bank Act, Foreign Investment and Technology Transfer Act (FITTA), Foreign Exchange Regulation Act (FERA)	Approval of Nepal Rastra Bank required thereafter, registration of the company is to be done, and application filed for a license to operate a bank or financial institution.
Airline Industry	(49 to 95)%	Civil Aviation Authority of Nepal	The Aviation Policy 2063 (2006), Civil Aviation Act, 2053, Civil Aviation Rules, 2052 (1996)	FDI is permissible in domestic airlines, international airlines, flying schools, and repair and maintenance work.
Telecommunications	80%	Nepal Telecommunication Authority, Ministry of Information and Communication	Telecommunication Act	Approval of Nepal Telecommunication Authority is required to operate services and obtain a license prior to operation.
Roads, Ropeways, Cable car	100%	Transport Management Office		
Media & Advertising – TV, Radio and Newsprint	100%	Ministry of Information and Communication	The Nepal Broadcasting Regulation, 2052 (1995), National Broadcasting Act 2049 (1993)	The Ministry of Communication and Information (MOCI) and Nepal Telecommunication Authority (NTA) provide a license for establishing media and broadcasting businesses in Nepal.
Pharmaceutical & Chemical Industries	100%	Department of Health Services	Industrial Enterprises Act, Drug Act	Approval from the Department of Drug Administration for setting up the industry, manufacturing, and selling the drug is required.
Textile and Garment	100%	Department of Industry	Industrial Enterprises Act	No specific requirements
Agriculture and Dairy	100%	Ministry of Agriculture and Co-operatives		No specific requirements
Consultancy and Management Services	51%	No Specific	Foreign Investment and Technology Transfer Act (FITTA)	Accountancy, Engineering, Legal & Management Services not allowed

Mining	100%	Department of Mines	Department of Mines and Geology (Department) Act, Mines and Minerals Act, 2050 (1993), Mines and Minerals Regulations, 2056 (1999)	License from the Department of Mines has to be obtained for mining activities in Nepal
Hydro-Power Generation	100%	Department of Electricity Development	Electricity Act, Electricity Rules	Approval from the Department of Electricity Development is required prior to the operation of the industry
Power Trade	100%	Department of Electricity Development	Electricity Act, Electricity Rules	Export of power to India is permitted for companies generating electricity
Transmission Lines	100%	Department of Electricity Development	Electricity Act, Electricity Rules	
Hotels, Resorts & Restaurant	100%	Ministry of Tourism	Tourism Policy, Tourism Act	Approval from the Department of Tourism required for operating restaurant, hotels, resorts
IT & IT enabled (BPO, KPO)	100%	Department of Science and Technology	IT Act	No specific requirements
Vocational, Educational Training and Coaching	100%		Foreign Investment and Technology Transfer Act	Only Skill Training and Language allowed
Hospitals & other Medical Services	100%	Ministry of Health & Population	Nepal Health Professional Act, Nepal Medical Council	Approval from the Ministry of Health is required for establishing hospitals and providing medical services
Recreational Health Centers	100%	Ministry of Health & Population		
Solid Waste Disposal & Management	100%	Ministry of Environment, Science and Technology	Environment Protection Act	
Film Industry	100%	Cinema Board of Nepal	Motion picture (Production, Exhibition, and Distribution) Act 2026 (1969) and Rules	Film produced in the language if the nation not allowed (FITTA, 1992)
Cargo Industry	100%		Domestic Cargo not permitted under FDI	
Medical Education	100%	Ministry of Education	MoHP's Directive on Establishment, Operation, Standards and Infrastructure of Private and Non-governmental Health Institution	

Acts and Policies Governing Each Industry:

Each industry is governed by specific acts, policies, and regulations that outline the terms, conditions, and requirements for foreign investment. Some industries might have dedicated acts or policies, while others might be governed by broader economic laws and regulations.

Foreign investors should thoroughly review the relevant acts and policies to ensure compliance and a comprehensive understanding of the legal framework within which they plan to operate.

Understanding the permissible industries, FDI limits, approval authorities, and regulatory landscape is crucial for foreign investors seeking to establish and operate businesses in Nepal. It's recommended to seek legal and professional guidance to navigate the complexities of industry-specific regulations and ensure a successful investment journey.

Chapter 3: Investment Procedures and Regulatory Compliance

Foreign investors interested in establishing a presence in Nepal must navigate various investment procedures and ensure compliance with the regulatory framework. This chapter provides an overview of the investment procedures, registration requirements, and the importance of adhering to regulatory compliance.

Approval Authorities: The approval authorities responsible for granting permissions and overseeing foreign investment in various industries include:

Sector	Regulatory Authority
Most sectors	Department of Industry (DOI)
Financial sectors	Nepal Rastra Bank (NRB)
Aviation industry	Civil Aviation Authority of Nepal
Telecommunications sector	Nepal Telecommunication Authority (NTA), Ministry of Information and Communication
Transportation and related sectors	Transport Management Office
Information and communication sectors	Ministry of Information and Communication
Healthcare industry	Department of Health Services
Agriculture and co-operatives	Ministry of Agriculture and Co-operatives
Minerals and mining	Department of Mines
Electricity development sector	Department of Electricity Development
Tourism sector	Ministry of Tourism
Science and technology-related projects	Department of Science and Technology
Healthcare sector	Ministry of Health & Population
Environmental and scientific matters	Ministry of Environment, Science and Technology
Cinema and entertainment industry	Cinema Board of Nepal
Education sector	Ministry of Education

FDI Approval Process in Nepal

The Foreign Direct Investment (FDI) approval process in Nepal involves several steps to ensure that foreign investors adhere to the country's regulatory framework. Here is an overview of the present FDI approval process:

1. **Application Submission:** Foreign investors interested in making an investment in Nepal need to submit their application along with the required documentation to the designated registration unit. This application is the initial step in seeking FDI approval.
2. **Director General Review:** The submitted application is reviewed by the Director General of the relevant authority. This review helps ensure that the application is complete and meets the necessary requirements for further processing.
3. **FDI Director Evaluation:** After the initial review, the Director General forwards the application to the FDI Director. The FDI Director and their team assess the application, verifying its contents, accuracy, and compliance with FDI regulations.
4. **Document Assessment:** Officers and staff in the FDI section carefully assess the submitted documents. This assessment involves checking the details provided by the applicant, including the proposed investment amount, business plan, technology transfer, employment generation, and other relevant information.
5. **Presentation to FDI Approval Committee:** The application, along with the assessment results, is presented before the FDI approval committee. This committee comprises members who possess expertise in various relevant fields. The committee is responsible for making informed decisions regarding FDI approvals.
6. **Pre-Meeting Distribution of Project Reports:** Prior to the committee meeting, copies of the project reports are shared with the License Director and Technical Director. This distribution allows these key stakeholders to review the project's details and provide any necessary input.
7. **Committee Review and Discussion:** During the committee meeting, members review the submitted documents in detail. They discuss the application objectively, raising any concerns or questions they may have. This discussion helps ensure a comprehensive assessment of the proposed investment.
8. **Conditional Approval and Documentation:** In cases where concerns are raised or additional documents are required, the committee may grant conditional approval. This approval is subject to the investor addressing the concerns and providing the necessary documents.
9. **Final Approval by Director General:** Once the investor addresses the conditions set by the committee, the application is sent back to the Director General for final approval. This step marks the conclusion of the FDI approval process. The Director General's approval signifies that the investment proposal has met all the necessary requirements.
10. **Timeline for Approval:** The FDI approval process typically takes around 5-10 days from the date of application submission. This timeframe includes the various stages of assessment, committee review, and final approval.
11. **Industry Registration and Extension:** After obtaining FDI approval, the foreign investor must apply for the registration of their industry at the Department of Industry (DOI) within 35 days. If

the registration cannot be completed within the stipulated time, the investor can apply for an extension of the validity period.

Note: For capital investments exceeding NRs. 10 billion, the Investment Board may directly engage with the investor, and the procedure will be tailored accordingly.

Navigating the FDI approval process in Nepal requires careful attention to detail and adherence to the regulatory framework. Seeking professional guidance and legal counsel can significantly facilitate the process and contribute to the successful establishment of foreign investment ventures.

Registration Requirements:

The registration requirements for foreign investors setting up a business in Nepal include:

1. **Investment Proposal:** A detailed investment proposal outlining the business plan, investment amount, technology transfer, employment generation, and expected benefits to Nepal.
2. **Memorandum of Association (MoA) and Articles of Association (AoA):** These documents define the company's scope of business, objectives, ownership structure, and internal regulations.
3. **Due Diligence and Background Check:** Foreign investors might be subject to due diligence and background checks to ensure their financial and legal credibility. For such, notarized copy of citizenship/passport and Financial Credibility Certificate of the investor is required.
4. **Proof of Investment:** Documents proving the source of funds for the investment.
5. **Passport and Visa:** Copies of passports and valid visas of the foreign investors.

Importance of Regulatory Compliance

Adhering to regulatory compliance is of utmost importance for foreign investors in Nepal. Non-compliance can result in penalties, fines, suspension of operations, or even legal action. Key aspects of regulatory compliance include:

1. **Tax Compliance:** Foreign investors must comply with Nepal's tax regulations, including income tax, value-added tax (VAT), and other applicable taxes.
2. **Labor and Employment Laws:** Foreign investors must adhere to labor laws, including employment contracts, wages, working hours, and employee benefits.
3. **Environmental Regulations:** Businesses must follow environmental impact assessment procedures and obtain necessary permits to ensure sustainable operations.
4. **Reporting Requirements:** Regular reporting to regulatory authorities is essential to keep them informed about the business's financial and operational status.
5. **Renewal of Permits:** Permits and licenses need to be renewed as per their validity periods.

Foreign investors are advised to seek legal counsel and professional guidance to ensure they understand and fulfill all investment procedures and regulatory requirements. This proactive approach will contribute to a smooth investment process and a successful business venture in Nepal.

Investment Timeline

FITTA Regulation has established an investment timeline based on two criteria: (a) approval from DOI/IBN, and (b) the commercial operation commencement date of the business.

(a) Foreign investors are obligated to infuse the FDI amount within one (1) year from the date of DOI/IBN approval, adhering to the following percentage:

S.N.	FDI Amount	% of Capital Injection
1	NPR 50 Million (approx. USD 430,000)	25%
2	NPR 50 Million to NPR 250 Million (approx. USD 430,000 to USD 2.2 Million)	15%
3	NPR 250 Million to NPR 1 Billion (approx. USD 2.2 Million to USD 8.5 Million)	10%
4	Above NPR 1 Billion (approx. USD 8.5 Million)	5%

(b) In addition to the aforementioned, it's important to note that in accordance with FITTA Regulation, investors are obligated to infuse 70% of the total FDI amount before the commercial operation commencement date¹¹ of the investee company. The remaining 30% must be brought in within two years following the aforementioned date.

Furthermore, when considering foreign investment through the acquisition of shares in an existing company, the prescribed investment timeline is one year from the date of approval.

Chapter 4: Areas Allowed for Foreign Investment

Foreign investors seeking opportunities in Nepal have a range of sectors and industries where their investment is allowed. Nepal's government has identified specific areas for foreign investment, each with its own set of regulations and opportunities. This chapter delves into the various sectors permitted for foreign investment, offering a detailed listing of industries, as well as highlighting any restrictions and prohibited sectors.

Sector	Industries
Manufacturing	Textiles and Garments, Pharmaceuticals, Food and Beverages, Chemical Products, Electronics and Electrical Equipment, Metal Products and Machinery
Tourism and Hospitality	Hotels and Resorts, Restaurants and Cafes, Adventure and Eco-Tourism, Travel Agencies and Tour Operators
Agriculture and Agro-Based Industries	Commercial Farming, Horticulture and Floriculture, Dairy and Livestock Farming, Agro-Processing and Packaging
Infrastructure and Construction	Roads and Highways, Bridges and Tunnels, Urban Development Projects, Housing and Real Estate Development
Energy and Power	Hydropower Projects, Solar and Wind Energy, Power Generation and Distribution
Information Technology and Communication	Software Development, IT Consulting Services, Data Centers, Telecommunication Services
Health and Education Services	Hospitals and Clinics, Medical Colleges and Training Institutes, Educational Consultancies, Skill Development Centers
Financial Services	Banking and Financial Institutions, Microfinance and Cooperatives, Insurance Companies
Mining and Minerals	Extraction of Minerals, Processing and Value Addition of Minerals, Small-Scale Mining
Export-Oriented Industries	Production of Export Goods, Export-Oriented Manufacturing Units
Research and Development	Scientific Research Institutes, Technology Innovation Centers
Special Economic Zones (SEZs)	SEZs with Dedicated Infrastructure, Export-Oriented Manufacturing within SEZs

FDI Caps

Sure, here is the table of the foreign direct investment (FDI) caps for different sectors in Nepal:

Sector	FDI Cap
Banking and Financial Institutions (BFIs)	Minimum 20% and Maximum 85 %
Telecommunication	80%
Broadcast	25%
Aviation Companies (Aircraft Operation, Training, Repair and Maintenance, and Passenger Service Provider)	49% (Domestic airlines) 80% (International Airlines) 95% (Flying School) 95% (Repair and Maintenance Institutions)
Insurance Companies	80%
Consultancy Business	51%

Restrictions and Prohibited Sectors:

Certain areas such as defense, security, and other sensitive sectors might be subject to restrictions or prohibited for foreign investment. Here is the table of the industries that are not eligible for foreign direct investment (FDI) in Nepal:

Industry	Reason
Cottage industries (except industries using electricity more than 5 kW)	These industries are considered to be the backbone of the Nepali economy and are therefore reserved for domestic investors.
Personal service businesses (e.g. hair cutting, beauty salon, tailoring, driving training, etc.)	These businesses are considered to be low-skilled and labor-intensive, and are therefore not considered to be a priority for FDI.
Arms and ammunition industries	These industries are considered to be sensitive and are therefore subject to government control.
Gunpowder and explosives	These industries are considered to be dangerous and are therefore subject to government control.

Industries related to radioactive materials	These industries are considered to be hazardous and are therefore subject to government control.
Real estate business (excluding construction industries)	This sector is considered to be a bubble and is therefore not considered to be a priority for FDI.
Film industries (national languages and other recognized languages of Nepal)	This sector is considered to be a cultural industry and is therefore reserved for domestic investors.
Security printing	This sector is considered to be a sensitive industry and is therefore subject to government control.
Bank notes and coins	This sector is considered to be a sensitive industry and is therefore subject to government control.
Retail business (excluding international chain retail businesses with business in at least two countries)	This sector is considered to be a sensitive industry and is therefore subject to government control.
Tobacco (excluding more than 90% exportable)	This sector is considered to be harmful to public health and is therefore subject to government control.
Internal courier service	This sector is considered to be a strategic industry and is therefore reserved for domestic investors.
Atomic energy	This sector is considered to be a sensitive industry and is therefore subject to government control.
Poultry	This sector is considered to be labor-intensive and is therefore not considered to be a priority for FDI.
Fisheries	This sector is considered to be labor-intensive and is therefore not considered to be a priority for FDI.
Beekeeping	This sector is considered to be labor-intensive and is therefore not considered to be a priority for FDI.

Consultancy services (e.g. management, accounting, engineering, legal services); (Maximum of 51% FI is allowed)	This sector is considered to be strategic and is therefore subject to government control.
Processing of food grains on rent	This sector is considered to be a sensitive industry and is therefore subject to government control.
Local catering services	This sector is considered to be labor-intensive and is therefore not considered to be a priority for FDI.
Rural tourism	This sector is considered to be labor-intensive and is therefore not considered to be a priority for FDI.

It's important for foreign investors to carefully review the detailed listing of permitted industries and any applicable regulations before making investment decisions. Understanding both the opportunities and the limitations is crucial for successful and compliant foreign investment in Nepal.

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Chapter 4: Incentives and Benefits for Foreign Investors

Foreign investors considering investment in Nepal are eligible for various incentives and benefits aimed at fostering economic growth, job creation, and technology transfer. The Nepalese government has implemented several measures to attract and support foreign direct investment. This chapter explores the incentives and benefits available to foreign investors in Nepal.

1. Tax Incentives

- **Income Tax Exemption:** Industries established in specified remote and underdeveloped areas may receive income tax exemptions for a certain period.
- **Tax Holidays:** New industries, export-oriented industries, and industries in priority sectors can enjoy tax holidays for a predetermined period, during which they are exempt from income tax.
- **Reduced Income Tax Rates:** Certain industries may benefit from reduced income tax rates compared to domestic industries.
- **Duty-Free Import of Capital Goods:** Industries may be allowed to import necessary capital goods without paying customs duties.
- **Dividend Tax Waiver:** Dividends distributed to foreign investors are exempt from dividend tax.

2. Non-Tax Incentives

- **Full Ownership:** Foreign investors are allowed to have 100% ownership of their ventures, except in cases of certain sensitive sectors.
- **Repatriation of Profits:** Foreign investors can repatriate their profits, dividends, and capital gains subject to applicable regulations.
- **Technology Transfer:** Foreign investors can contribute to technology transfer and skills development in Nepal.
- **One-Window Service:** The government provides a streamlined one-window service for foreign investors, simplifying administrative procedures.

3. Sector-Specific Incentives

- **Tourism:** Incentives for hotels, resorts, and other tourism-related businesses include income tax exemptions and import duty waivers for specified goods.
- **Agriculture and Agro-Based Industries:** Foreign investors in agriculture, livestock, and agro-based industries enjoy tax holidays and duty exemptions.
- **Hydropower:** Foreign investment in hydropower projects is eligible for various incentives, such as tax holidays, income tax exemptions, and more.
- **Export-Oriented Industries:** Industries primarily engaged in exports can benefit from tax holidays and reduced income tax rates.
- **Information Technology:** IT companies receive tax holidays and other incentives to promote growth in the sector.

4. Investment Protection

- **Bilateral Investment Promotion and Protection Agreements (BIPPs):** Nepal has signed BIPPs with several countries to provide protection to foreign investments, including provisions for dispute resolution.
- **World Bank's Ease of Doing Business Ranking:** Nepal's efforts to improve the ease of doing business aim to provide a favorable environment for foreign investors.

5. Special Economic Zones (SEZs)

- SEZs offer additional incentives, including tax holidays, simplified customs procedures, and dedicated infrastructure.

6. Investment Board Nepal (IBN)

- For large-scale projects meeting specific criteria, the IBN offers personalized facilitation services and additional incentives.

It's essential for foreign investors to thoroughly understand the incentives and benefits available in Nepal and to consult with legal and financial experts to make informed investment decisions. By leveraging these incentives, foreign investors can contribute to Nepal's economic growth while achieving their business goals.

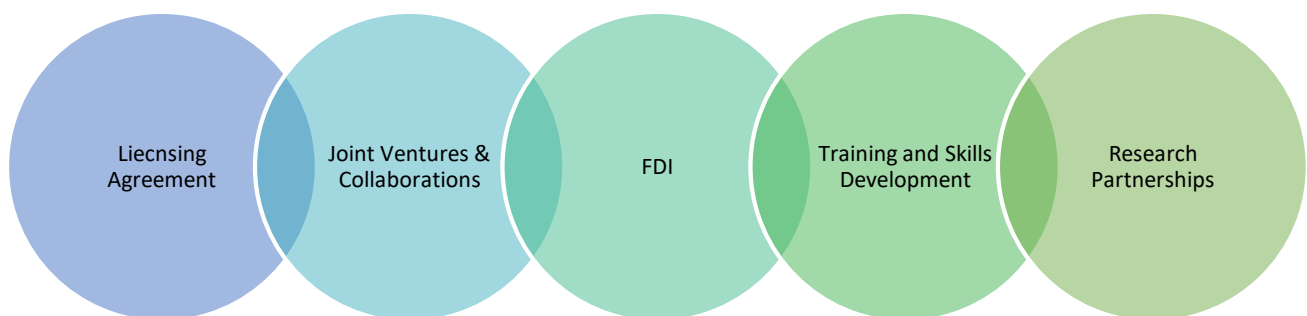
Chapter 5: Technology Transfer in Nepal

Nepal's economic development is intricately tied to technological advancements. This chapter explores the mechanisms and processes associated with technology transfer in Nepal, shedding light on the various forms it can take and the steps involved in its documentation and approval.

1. Forms of Technology Transfer:

Technology transfer involves the sharing of knowledge, skills, and expertise between domestic and foreign entities. In Nepal, technology transfer can occur through several avenues:

- **Licensing Agreements:** Foreign companies can license their proprietary technologies to Nepali counterparts in exchange for royalties or other agreed-upon compensation. This allows domestic companies to access and utilize established technologies without developing them from scratch.
- **Joint Ventures and Collaborations:** International firms can enter joint ventures or collaborations with local companies. This enables the exchange of technical know-how, often leading to the development of new products or processes that benefit both parties.
- **Foreign Direct Investment (FDI):** Foreign investors bringing their expertise to Nepal can indirectly transfer technology by introducing advanced machinery, processes, and management practices to their local operations.
- **Training and Skill Development:** Foreign experts can provide training to Nepali professionals, enhancing their skills and knowledge. This can occur through workshops, seminars, and on-the-job training.
- **Research Partnerships:** Collaborative research initiatives between international and Nepali institutions can lead to the exchange of cutting-edge technologies and innovations.



Forms of Technology Transfer

2. Documentation and Approval Process:

The transfer of technology in Nepal involves documentation and approval to ensure transparency, compliance, and the protection of both parties' interests. The process typically includes the following steps:

- **Submission of Proposal:** The party initiating the technology transfer, whether foreign or domestic, submits a proposal outlining the scope, objectives, and details of the technology to be transferred.
- **Review and Evaluation:** The concerned authorities review the proposal to assess its feasibility, potential benefits, and alignment with national priorities.
- **Approval and Agreement:** Once the proposal is deemed acceptable, an agreement is drafted between the parties involved. This agreement outlines the terms of technology transfer, including rights, obligations, compensation, and any restrictions.
- **Regulatory Clearance:** Depending on the nature of the technology and its potential impact, regulatory clearances from relevant authorities may be required to ensure safety, security, and environmental considerations.
- **Intellectual Property Rights (IPR):** If the technology being transferred involves intellectual property, such as patents or copyrights, the agreement should address how these rights will be protected and shared.
- **Reporting and Monitoring:** Post-approval, both parties may be required to submit progress reports to ensure compliance with the terms of the agreement. This helps in monitoring the effective implementation of the technology transfer.
- **Dispute Resolution:** Agreements should include mechanisms for resolving disputes that may arise during or after the technology transfer process.
- **Completion and Benefits:** Upon successful completion of the technology transfer, the recipient party gains access to the technology, leading to potential improvements in productivity, product quality, and overall competitiveness.

Nepal's government encourages technology transfer as a means to promote industrial growth and innovation. However, it's essential for both parties involved to adhere to the legal and regulatory framework to ensure a smooth and mutually beneficial transfer process.

In conclusion, the chapter outlines the various forms technology transfer can take in Nepal and provides insight into the documentation and approval procedures necessary for a successful and compliant transfer. It emphasizes the collaborative nature of technology transfer and its potential to contribute to Nepal's technological progress and economic development.

Documentation and Approval Process for Technology Transfer

The successful execution of technology transfer in Nepal requires thorough documentation and adherence to specific procedures. Below are the essential documents and steps involved in the approval process for technology transfer, ensuring transparency and compliance with regulations.

S.No.	Document	Explanation	Copies
1	Technology Transfer Agreement (TTA)	A detailed agreement outlining the terms, conditions, and specifics of the technology transfer, including responsibilities, compensation, and rights of both parties.	3
	Citizenship Certificate or Certificate of Incorporation (Local Party)	Proof of identity in the form of a citizenship certificate for individuals or a Certificate of Incorporation, including Memorandum of Association and Articles of Association, if the local party is a company.	1
3	Passport or Certificate of Incorporation (Foreign Party)	Copy of the passport for individuals or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if the party is a foreign company.	1
4	Bio-data / Company Profile of the Foreign Party:	Information about the foreign party's background, experience, and expertise relevant to the technology transfer.	1
5	Industry Registration Certificate	Proof of registration of the industry involved in the technology transfer process.	
6	Minutes of the Board Meeting of Recipient Company	Copy of the minutes from the board meeting of the recipient company discussing the inclusion of the technology through transfer.	1
7	Authority Letter	If applicable, authorization from concerned companies or individuals allowing the carrying out of necessary work on their behalf.	1

Chapter 6: Foreign Equity Investment in a New Industry

Foreign Equity Investment plays a vital role in establishing new industries in Nepal. This chapter outlines the essential procedures, documents, and fees associated with such investments.

Foreign Equity Investment

Foreign Equity Investment involves the infusion of capital by foreign investors to establish a new industry in Nepal. This process contributes to the growth of various sectors within the country's economy.

Required Documents and Copies

Foreign investors need to provide the following documents for the Foreign Equity Investment process: In cases where foreign investment occurs through share transfer in an existing Nepalese company, the following documents are required:

Required Documents and Copies

Foreign investors need to provide the following documents for the Foreign Equity Investment process:

1. Detailed project report
2. Citizenship certificate or Certificate of Incorporation of the local party
3. Passport copy or Certificate of Incorporation of the foreign party
4. Bio-data or Company profile of the foreign party
5. Industry Registration Certificate
6. Copy of the minutes of the Board meeting of the recipient company
7. Authority letter, if applicable
8. Other documents as required by regulatory authorities

FDI Approval Process Timeline (Tentative)

Stepwise Process	Regulatory Authority	Tentative Timeline
1. FDI approval	DOI or IBN	20 days
2. Company registration	OCR	7 days
3. Tax registration	IRD	1 day
4. Local business registration	Concerned ward office	1 day
5. Industry registration	DOI	15 days
6. Opening local bank account for bringing in FDI amount	Any Nepalese BFI of choice	2 days
7. Prior notification for bringing in FDI amount	NRB	1 day
8. Recording of FDI amount after investment	NRB	15 days

Chapter 7: Foreign Investment in an Existing Industry by Share Transfer

Foreign investors have the opportunity to invest in established industries in Nepal by acquiring shares from existing shareholders.

Foreign investors must submit the following documents for the share transfer process:

1	Request from Share Transferor	Formal request from the party transferring shares, expressing the intent and details of the share transfer	1
2	Request from Share Transferee	Formal request from the party receiving the transferred shares, including relevant details	1
3	Share Transfer Agreement	A comprehensive agreement detailing the share transfer process, terms, and conditions	1
4	Minutes of the Board Meeting of Nepalese Company	Copy of the board meeting minutes where the decision to include the foreign investor through share transfer was taken	1
5	Company Profile of Foreign Party	Company profile of the foreign party involved in the share transfer, including Certificate of Incorporation and Memorandum of Association	1
6	Passport and Bio-data of Foreign Party (if individual)	Copy of the passport and bio-data of the foreign party if they are an individual investor	1
7	Financial Credibility Certificate	Provided by a bank, this certificate establishes the financial credibility of the foreign investor	1
8	Current Shareholders' List	Certified document from the Company Registrar's Office listing the current shareholders	1
9	Auditor's Report	An audit report of the company's financial status	1
10	Tax Clearance Certificate	Certificate indicating that the foreign investor's tax obligations are up to date	1
11	Authority Letter(s)	Authorization letter(s) from concerned companies granting signatory authority on their behalf	1

The documents and approvals for technology transfer and foreign investment through share transfer are designed to ensure that the process is transparent, compliant, and mutually beneficial for all parties involved. These steps safeguard the interests of both the domestic and foreign entities, promoting effective technology transfer and investment in Nepal.

Share Transfer Agreement Process

The share transfer process involves executing the Share Transfer Agreement and fulfilling regulatory requirements. This agreement outlines the terms of the share transfer, ensuring clarity for all parties involved. Foreign investment by share transfer enhances the capital base of existing industries in Nepal, fostering economic growth and collaboration. By adhering to the stipulated documentation and procedures, foreign investors can seamlessly participate in share transfer activities.

Chapter 8 : Loan Investment in an Existing Nepalese Industry

When a foreign investor seeks to invest in an existing industry in Nepal through a loan arrangement, the following documents are required to facilitate the process and ensure compliance with the regulations:

S.No.	Document	Explanation	Copies
1	Loan Agreement	A detailed agreement outlining the terms and conditions of the loan investment, including repayment terms, interest rates, and any other relevant provisions	1
2	Certificate of Incorporation of Lending Agency	A copy of the Certificate of Incorporation of the lending agency providing the loan to the Nepalese industry	1
3	Memorandum of Association and Articles of Association (Lending Agency)	Copies of the Memorandum of Association and Articles of Association of the lending agency, providing insights into its legal structure and business scope	1
4	Certificate of Incorporation of Recipient Company	Copy of the Certificate of Incorporation, including the Memorandum of Association and Articles of Association of the recipient company in Nepal	1
5	Industry Registration Certificate	Proof of the recipient industry's registration in Nepal	1
6	Minutes of the Board Meeting of Recipient Company	Copy of the minutes from the board meeting of the recipient company where the decision to acquire the loan investment was made	1
7	Authority Letter	If applicable, authorization from concerned companies or individuals allowing the carrying out of necessary work on their behalf	1

These documents collectively ensure that the loan investment process is transparent, in accordance with legal requirements, and aligns with the intended business objectives. The loan agreement forms the core of the arrangement, detailing the terms of the loan and the obligations of both the lending agency and the recipient company. The documentation process, including the incorporation certificates and industry registration, ensures that the necessary due diligence is conducted to promote a smooth and compliant loan investment process in the existing Nepalese industry.

Loan Agreement Process

The loan agreement process involves drafting a comprehensive agreement that outlines the terms, conditions, and obligations of the loan investment. This includes repayment schedules, interest rates, and any other pertinent provisions.

Loan investments can provide valuable financial support to existing industries, promoting growth, innovation, and stability.

Chapter 9: Doing Business in Nepal

This chapter provides an in-depth understanding of the business landscape in Nepal, outlining the steps involved in starting a business, along with the associated timeframes and costs.

Doing Business Overview

Nepal offers a diverse range of opportunities for entrepreneurs and foreign investors. Understanding the process of doing business in Nepal is crucial to navigate the regulatory environment effectively.

Steps for Starting a Business

Starting a business in Nepal involves a series of essential steps:

1. **Business Idea and Feasibility Study:** Define your business idea and conduct a feasibility study to assess market demand and potential challenges.
2. **Company Registration:** Register your company with the Department of Industry (DOI) to establish a legal entity.
3. **Industry Registration:** If applicable, obtain industry-specific registration from the relevant authorities.
4. **Licensing and Approvals:** Obtain any necessary licenses, permits, and approvals from relevant government agencies.
5. **Office Setup and Staffing:** Establish your business premises and hire staff as required.
6. **Commencement of Operations:** Once all formalities are completed, you can start your business operations.

Estimated time to register a company in Nepal

SN	Procedure	Time complete to	Cost to complete
1	Verify the uniqueness of the proposed company name Verification of the uniqueness of a company name can now be done online. To reserve the available company name, the company must submit an application to the Office of the Company Registrar. The company name reservation can also be completed online for no charge.	1 day	No Charge
2	A professional verifies and certifies the memorandum and articles of association Although professional verification or certification prior to submission to the official agency is no longer required, entrepreneurs continue to use the services of professionals in practice for verifying and drafting the memorandum and articles of association. This is mainly done to avoid mistakes since there are no standard memorandum and articles of association's forms that entrepreneurs can use.	5 days	NPR 10,000 depending on the professional's charges

3	Buy a stamp to be attached to registration form	1 day	NPR 5
4	<p>Register at the Office of the Company Registrar, Department of Industry</p> <p>To register a company, the promoter must submit an application as prescribed by the Ministry of Industry, Commerce, and Supplies. Online filing of the required documents has been introduced. The registration fee is based on the company's authorized capital:</p> <p>Up to NPR 100,000 (authorized capital): NPR 1,000.00</p> <p>NPR 100,001 to NPR 500,000: NPR 4,500.00</p> <p>NPR 500,001 to NPR 2,500,000: NPR 9,500.00</p> <p>NPR 2,500,001 to NPR 10,000,000: NPR 16,000.00</p> <p>NPR 10,000,001 to NPR 20,000,000: NPR 19,000.00</p> <p>NPR 20,000,001 to NPR 30,000,000: NPR 22,000.00</p> <p>NPR 30,000,001 to NPR 40,000,000: NPR 25,000.00</p> <p>NPR 40,000,001 to NPR 50,000,000: NPR 28,000.00</p> <p>NPR 50,000,001 to NPR 60,000,000: NPR 31,000.00</p> <p>NPR 60,000,001 to NPR 70,000,000: NPR 34,000.00</p> <p>NPR 70,000,001 to NPR 80,000,000: NPR 37,000.00</p> <p>NPR 80,000,001 to NPR 90,000,000: NPR 40,000.00</p> <p>NPR 90,000,001 to NPR 100,000,000: NPR 43,000.00</p> <p>More than NPR 100,000,000: NPR 43,000 plus NPR 30 for each additional NPR 100,000.</p>	7 days	NPR 9,500
5	Make a company rubber stamp	1 day	NPR 275
6	<p>Register for VAT and income Tax with the Inland Revenue Office, the Ministry of Finance</p> <p>The company must disclose the office address and withhold 10% tax of the rent for at least 3 months and deposit it to the tax office. If the company's objectives include goods or services subject to VAT, both registrations (VAT and income tax) should be obtained simultaneously.</p>	1 day	No Charge

Chapter 10: Property Registration Process

This chapter provides a comprehensive overview of the property registration process in Nepal, including the procedure, timeframes, and associated costs.

Property Registration

Property registration is a vital step to ensure legal ownership and protection of property rights in Nepal.

Procedure and Time Required

The property registration process involves the following steps:

1. **Verification of Property Title:** Ensure the property's title is clear and free from disputes.
2. **Preparation of Transfer Documents:** Prepare the necessary documents for ownership transfer.
3. **Submission of Application:** Submit the application along with required documents to the concerned land registration office.
4. **Document Verification and Approval:** The office verifies the documents and approves the transfer.
5. **Registration and Ownership Transfer:** The property is registered in the buyer's name.

Costs Involved

The costs associated with property registration include:

- **Registration Fees:** A percentage of the property value.
- **Stamp Duty:** Based on the property value.
- **Legal Fees:** Professional fees for legal assistance during the process.

It's essential to budget for these costs when engaging in property transactions in Nepal.

The entire process may take several weeks to complete, depending on the complexity of the property transaction.

N	Procedure	Time to complete	Cost to complete
1	Purchase building permit application from Kathmandu Metropolitan City (KMC)	1 day	NPR 1,000
2	<p>Request and obtain temporary building permit</p> <p>The 35 days are divided as follows:</p> <ul style="list-style-type: none"> • Day 1: BuildCo submits the drawings to the municipality along with a copy of the title certificate. • Day 2: The municipality forwards the file to the municipality ward office where the land is located. • Day 4: The ward office checks the field and sends a notice to the site's neighbors. • Day 8: Start of the maturation of notice period. • Day 23: Start of the local inquiry done by the ward office. • Day 27: The ward office sends the file back to the municipality. • Day 29: The municipality starts the process of issuing a temporary approval of the drawings. At least one of the neighbors must give their consent in order for the project to be approved. Otherwise, the builder can submit a "commitment letter" certifying that he is responsible for any potential dispute in the future. This can delay the approval process to around 2 months. <p>An applicant must submit the following documents along with the building permit application:</p> <ul style="list-style-type: none"> • Identity document of the owner (or Company Registration Certificate) • Certification by a registered architect or engineer • Cadastral extract • Proof of land ownership/lease • Building Plans • Lot plan • Proof of tax payment • Structural plans (not required for buildings with ground coverage area of less than 1,000 sq.ft and less than 3 stories) <p>The originals of all documents must be demonstrated when submitting the copies to the Urban Development Department of Kathmandu Metropolitan City.</p> <p>The building permit fee is calculated as follows:</p> <ul style="list-style-type: none"> • Built-up area up to 3,000 sq.ft: 10.00 rupees per sq.ft • Built-up area between 3,001 and 5,000 sq.ft: 15.00 rupees per sq.ft • Built-up area 5,001 sq.ft and above: 20.00 rupees per sq.ft <p>For apartment housing and group housing, the application fee is a flat 25.00 rupees per sq.ft.</p> <p>In addition to the building permit fee, the Urban Development Department also charges a Designer Fee of 2,000.00 rupees. The project designer must be licensed by the Department. The license is called Certificate of Designer and is renewed every year at the Municipality.</p> <p>The annual fee is 3,000.00 rupees. The Municipality charges an additional 2,000.00 rupees for each building design.</p>	35 days	NPR 282,000

3	*Receive inspection from respective ward The ward office visits the site and distributes a notice to neighbors.	1 day	No Charge
4	Request permanent building permit The company applies for the permanent building permit once the construction has reached plinth level.	1 day	No Charge
5	* Receive plinth inspection from the Municipality Before issuance of the construction permit, an on-site inspection is conducted by an official from the municipality or the Town Development Committee to ensure that the construction (up to plinth level) conforms to the approved drawings. The company's engineer or architect has to be present during the inspection.	1 day	No Charge
6	Obtain permanent building permit After inspecting the construction site, the municipality engineer writes a "site report" and issues a permit for construction above the plinth level.	30 days	No Charge
7	Request completion certificate	1 day	No Charge
8	* Receive final inspection from the Municipality Before issuance of the completion certificate, the municipality conducts an on-site inspection to check if the construction conforms to the approved drawings. An inspector visits the site in 2-3 days after the request for completion certificate and writes a report to the more senior engineer.	1 day	No Charge
9	Obtain completion certificate There will be 4 signatures on the completion certificate: (1) junior engineer, (2) senior engineer, (3) chief engineer of Kathmandu Metropolitan City and (4) departmental engineer. It takes approximately 7 days to get the certificate after the inspection. These signatures are required for any kind of permit.	30 days	No Charge
10	Request and obtain water and sewage connection BuildCo submits an application for water and sewerage service to the drinking water and sewerage offices. The drinking and sewerage offices then send their recommendation to the road department to grant permission to dig the road for the connection. The Department of Roads then grants its permission to dig the road. The tap and sewer connection is then carried out.	15 days	NRP 8,000
11	* Receive inspection from water and sewage offices	1 day	No Charge
12	* Obtain Telecommunications Connection The client must fill out the application form and submit it to NTC together with company registration certificate, PAN, etc. NTC will check the junction box and give client the quote (deposit, connection fee, etc.).	7 days	NRP 2,200
13	* Receive Telecommunications Inspection	1 day	No Charge

Chapter 11: Treatment and Protection of Foreign Investors

This chapter discusses the treatment and protection of foreign investors in Nepal, covering bilateral investment agreements, national treatment, non-discrimination, and dispute settlement mechanisms.

Investor Protection

Nepal acknowledges the significance of protecting foreign investors' interests. This protection is reinforced through various mechanisms and agreements.

Bilateral Investment Promotion and Protection Agreements

Bilateral agreements provide a framework for promoting and protecting foreign investments. These agreements establish guidelines for dispute resolution and protection of investors' rights.

Country	Agreement	Date of Agreement
India	Agreement between the Government of Nepal and the Government of India for the Promotion and Protection of Investment	21-Oct-11
Finland	Agreement between the Government of Nepal and the Government of Republic of Finland on the Promotion and Protection of Investment	3-Feb-09
Mauritius	Agreement between the Government of the Republic of Mauritius and His Majesty's Government of Nepal for the Promotion and Reciprocal Protection of Investments	3-Aug-99
United Kingdom of Great Britain and Northern Ireland	Agreement between His Majesty's Government of Nepal and the Government of the United Kingdom of Great Britain and Northern Ireland for the Promotion and Protection of Investments	2-Mar-93
Germany	Treaty between the Federal Republic of Germany and the Kingdom of Nepal concerning the Encouragement and Reciprocal Protection of Investments	20-Oct-86
France	Agreement between His Majesty's Government of Nepal and the Government of the Republic of France on the Reciprocal Promotion and Protection Investments	2-May-83
Nepal and USA entered on Trade and Investment Framework Agreement (TIFA) on April, 2011.		

National Treatment and Non-Discrimination

Foreign investors in Nepal are generally treated on par with domestic investors. Discrimination based on nationality is prohibited, ensuring a level playing field.

There are two exceptions with respect to India:

1. Indian workers do not require a visa.
2. Indian investors can invest and repatriate in Indian currency, whereas third country investors can do so only in convertible currencies.

- Furthermore, some differential treatment may occur with investors from countries with which Nepal has entered into BIPPA.

Dispute Settlement Mechanisms

Disputes between investors and the host country are addressed through legal mechanisms. These mechanisms offer a fair and transparent process for resolving conflicts.

For industries with fixed assets investment of up to NRs. 500 million:

- If disputes cannot be resolved through mutual consultations in the presence of the DOI, arbitration will be utilized.
- Arbitration proceedings will adhere to the prevailing arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).
- The arbitration process will take place in Kathmandu.
- Nepalese laws will govern the entire arbitration process.

For industries with fixed assets investment exceeding NRs. 500 million:

- Dispute resolution may follow the provisions outlined in the Joint Venture Agreement or Share Purchase Agreement.

Chapter 12: Taxation

Tax System of Nepal

Nepal's taxation system allocates the authority and responsibility for imposing taxes across its three levels of government. Taxes are imposed on earnings derived from business, investments, employment, and unexpected gains. The tax structure in Nepal encompasses two main categories: (a) direct taxes and (b) indirect taxes. Direct taxes entail payments made directly from individuals or entities to the government, focusing on income and profits. In contrast, indirect taxes do not involve direct payments from consumers (individuals or entities) to the government; rather, they are imposed on goods and services, dissociated from income and profits.

Both individuals and companies are obligated to adhere to a consistent income year spanning from July 16 to the subsequent July 15, aligning with the Nepalese Fiscal Year. Income tax becomes applicable to both residents and non-residents who possess taxable income within Nepal. This taxable income is calculated by deducting permissible deductions, benefits, and concessions from the total income. In accordance with Nepal's Income Tax Act (ITA), various sources of income are subjected to taxation, including (a) employment earnings, (b) business profits, (c) investment returns, and (d) windfall gains.

Corporate Income Tax Rates Applicable to Entities

INDUSTRIES	Normal Rate
1. General Corporate Tax	25%
2. Concessional Corporate Tax	
<ul style="list-style-type: none">Income earned from operation of manufacturing activities (excluding tobacco and alcohol products).	20%
<ul style="list-style-type: none">Income earned from agriculture, forestry, and mining industries.	20%
3. High-rate Corporate Tax	
<ul style="list-style-type: none">Income earned from Banks or financial institutions or General insurance business.	30%
<ul style="list-style-type: none">Income earned from manufacturing Tobacco and Alcohol.	30%
<ul style="list-style-type: none">Income earned from Telecom and Internet Services.	30%

Income Tax Concession

The ITA has provided tax incentives based on - (a) nature of industry, (b) number of employees, and (c) location of industry, some of which are illustrated in the table below:

INDUSTRIES	CONCESSION Rate
INDUSTRIES in Special Economic Zone	
Industry established in a Special Economic Zone in mountain areas or hill areas by the Government of Nepal.	100 % exemption up to 10 years from the date of operation of business and 50% rebate in subsequent years.
Hydropower PROJECTS	
Entity having license to generate, transmit or distribute electricity will be provided concession if the commercial operation of electricity generation, transmission or distribution commences before April 12, 2024 (Provisions will be applicable for electricity generated from solar, wind or organic material).	100% exemption up to 10 years and 50% rebate in subsequent 5 years after the commercial operation date.
IT INDUSTRIES and SPECIAL INDUSTRIES WHICH provide direct employment to following NEPALESE CITIZENS during the income year	
≥100 Nepalese citizens	10% on the income derived
≥300 Nepalese citizens	20% on the income derived
≥500 Nepalese citizens	25% on the income derived
≥1000 Nepalese citizens	30% on the income derived
Income derived by PERSON engaged in:	
Operation of tram, trolleybus.	40%
Construction & operation of ropeway, cable car, or overhead bridge.	40%
Construction or operation of road, bridge, tunnel, railway, airport.	50%
Other CONCESSIONS	
Income from companies listed in the capital markets and relating to – (a) manufacturing, (b) service industry, (c) hydropower generation, distribution, and transmission industry, and (d) entities mentioned in Section 11(3)(c) of ITA.	15 % on Applicable Rate/Normal Rate
Royalty from export of intellectual property by a person.	25% on Normal Rate
Income from sale of intellectual property by a person through transfer.	50% on Normal Rate
Income generated from IT industries related to software development, data processing, cybercafé, digital mapping that are established in geological, zoological, biotech related park and information technology park as prescribed by GON through Nepal Gazette.	50% on Normal Rate

Fruit based brewery manufacturing brandy, cider and wine in very underdeveloped area and undeveloped area.	40% and 25% respectively on the income derived for 0-10th years of operation
Income derived by an entity from the following: <ul style="list-style-type: none"> • Construction, operation, and transfer to GON of public infrastructures. • Construction of powerhouse, generation and transmission of electricity. 	20% on the income derived
Export Income Sourced in Nepal. (Note: Income of manufacturing industries earned from exporting manufactured goods is entitled to 35% further concession in addition to this concession.)	20% rebate on applicable taxes

Note: Applicable Rate means the rate applicable to the special industry after concession under Section 11 (2)(b) of ITA and Normal Rate means the tax rate applicable to industry other than special industries.

Withholding Taxes/TDS Applicable to Foreign Investors

Foreign investors are required to pay TDS at certain rates in Nepal, depending on the nature of income they have derived from their investments. This includes:

Income Head	Rate of TDS
Dividends	5%
Royalties under technology transfer	15%
Service Fees	15%

Withholding of Capital Gains Tax on Sale of Shares

When a foreign investor sells shares held in a Nepalese entity, a capital gains tax of 25% is applicable to the profit gained from the transaction. This tax rate remains constant regardless of whether the sale is made to another foreign entity or a local individual. In cases where the sale occurs through a direct transaction between the buyer and the seller, the Nepalese entity is responsible for deducting and remitting the capital gains tax on behalf of the foreign investor. However, in secondary market transactions, the Nepalese entity is relieved from the duty of withholding the tax.

Local Taxes/Rental Tax

Local business taxes are levied by the concerned local authority for carrying out business activities in the jurisdiction of the municipalities. The rate of local business tax is determined by the nature of the industries. Rental tax is paid to the concerned authority on rental income. It is calculated on the basis of the rental amount. For the purpose of local tax, the entity must obtain local business registration from the concerned local authority. Local business tax is to be paid at the concerned local authority every year. The rate of local tax is different for different locations and depends on the nature of the business.

Double Taxation Avoidance

The ITA provides relief against double taxation, i.e., taxation in Nepal as well as in the native country of the foreign investor, as long as Nepal has a DTAA with the concerned country. Nepal has entered into DTAAs with 11 States namely - India, Bangladesh, Thailand, Sri Lanka, Mauritius, Austria, Pakistan, China, South Korea, Norway, and Qatar. Some of the common features relating to various income heads and their taxing authorities under Nepal's DTAAs include:

Income HEADS	Applicable JURISDICTION	Applicable Rate in Nepal
Profits of enterprise	Only taxed in the country of incorporation of the company or where the Permanent Establishment is established.	25%
Dividends	Both	<ul style="list-style-type: none">• 5% - if the beneficial owner of shares is a company holding at least 25% of shares of company distributing dividend.• 10% - if the beneficial owner of shares is a company holding at least 10% of shares of company distributing dividend.
Interest	Both	10-15%
Royalties	Both	15%
Capital Gains	Country where the Company whose shares are being transferred is a resident.	25%

In addition to this, Nepal provides relief against international double taxation to residents by granting foreign tax credits. Double tax relief can be claimed under the provisions of existing DTAAs.

Value Added Tax (VAT)

Value Added Tax (VAT) is a tax system based on goods and services. This levy is imposed on the sale, exchange, transfer, and import of all goods and services, excluding those explicitly designated as tax-exempt by the law. VAT encompasses all varieties of goods and services produced within or imported into the country, with exceptions made for items specified as tax-exempt under the law. VAT is an enhanced rendition of the sales tax model, operating across various stages of the goods and services production and distribution process. In essence, the discrepancy between the purchase cost and the selling price represents the value added.

The standard rate for VAT is a fixed 13%, which is applied to the value stated on the invoice. Designated goods fall outside the purview of VAT or are granted exemption. Goods and services exported, both domestically and internationally, are subject to a tax rate of 0% (zero percent). To prevent dual taxation, a credit system is established for VAT paid on goods and services used in the production of any taxable supply (Input VAT). Similarly, a credit is provided for VAT paid on specific exempt supplies, such as exports. The primary mechanism for tax collection involves the obligation of the taxable supplier to impose VAT on supplied goods or services (Output VAT), to offset this against VAT paid on business expenses (Input VAT), and to remit the resultant net tax to the relevant authorities.

Chapter 13: Repatriation of Investment and Returns

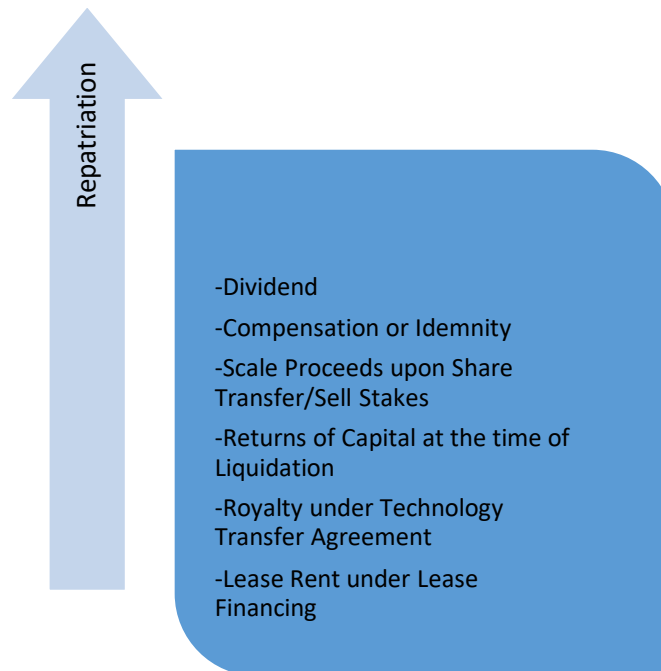
This chapter delves into the repatriation of investment and returns from Nepal, covering its definition, importance, and the conditions and procedures involved.

Repatriation of Funds

Repatriation refers to the process of transferring invested capital, profits, and dividends back to the foreign investor's home country.

A foreign investor who has invested in foreign currency holds the right to repatriate the subsequent sums:

1. The proceeds from the sale of the entirety or partial portion of the foreign investment shares.
2. Profits or dividends obtained from the foreign investment.
3. Payments of principal or interest pertaining to foreign loans.
4. Amounts stipulated in the technology transfer agreement as approved by the DOI for currency transfer under the respective agreement.
5. Return of capital on liquidation of the investee company
6. Lease amount under lease financing
7. Any compensation or indemnity amount upon the settlement of dispute in Nepal



Conditions and Procedures for Repatriation

Repatriation of funds is subject to compliance with regulatory guidelines. Proper documentation and approvals are necessary for seamless fund repatriation.

Foreign investors must obtain approvals from – (a) DOI or IBN, and (b) NRB for repatriating their investment and returns.

Approvals for Repatriation	Approving Authority
For approved investment of NPR 6 Billion (approx. USD 51 Million) and below	Department of Authority (DOI)
For approved investment above NPR 6 Billion (approx. USD 51 Million)	Investment Board of Nepal (IBN)

After obtaining these regulatory approvals, investors can repatriate the amount at the prevailing exchange rate. The amount can be repatriated either (a) in the same foreign currency which the foreign investor had brought in, or b) in a different foreign currency, for which approval from NRB will be required.

Tax Payment

Foreign investors are permitted to repatriate their investment amount only after payment of applicable taxes.

APPLICABLE TAX RATES		
S.No.	Outward Money	Tax
1	Dividend	5%
2	Royalties	15%
3.	Aircraft Lease	10%
4.	Share Sale Proceeds	5%
5	Return of Capital	N/A
6.	Service Charge	15%

Locked-in Period / Restriction on Repatriation

Foreign investors are not allowed to repatriate their investment amount during the 1st year of their investment. NRB sets out this condition at the time of granting its approval.

FITTA Regulation have prescribed ceiling on repatriation of royalty for two kinds of categories: (a) all kinds of technology transfer agreements except those for usage of trademark, and (b) technology transfer agreements entered for usage of trademarks.

(a) For all kinds of technology transfer agreements except usage of trademarks

Royalty BASED On	For Local SALES	For Export
Lump sum or gross sales revenue	Up to 5% of gross sales revenue excluding taxes	Up to 10% of gross sales revenue excluding taxes
Net profit	Up to 15% of net profit	Up to 20% of net profit

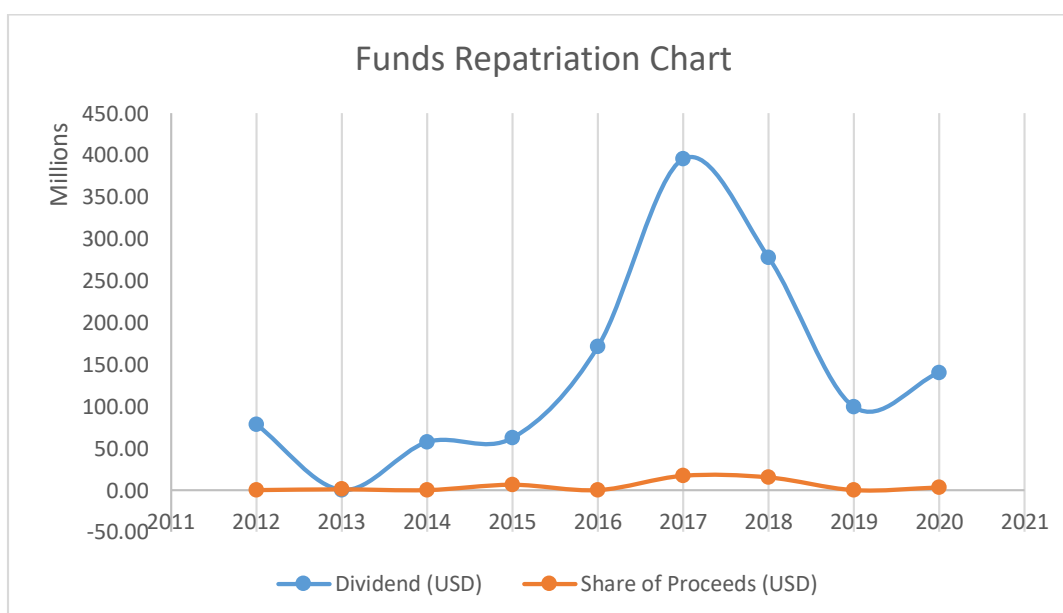
(b) For usage of trademarks

INDUSTRY	For Local SALES	For Export
Alcohol and tobacco industries	Up to 2% of gross sales revenue excluding taxes	Up to 5% of gross sales revenue excluding taxes
Other industries	Up to 3% of gross sales revenue excluding taxes	Up to 6% of gross sales revenue excluding taxes

In case of technology transfer for commencing the operations of an industry, the law has given flexibility to the parties to cap the royalty or other fees as per their agreement.

Fund Repatriation Records

The chart below shows the statistics of last eight fiscal years in terms of repatriation of dividends and share sale proceeds:



Required Documents

Repatriation of Sales of Shares

For the repatriation of the sale of shares of the foreign investor, he/she or the concerned company must apply to the Department of Industry for recommendation to the central bank with the following documents:

- a) Proof of investment made and number of shares owned, (the proof of investment could be a certificate from the commercial bank through which the investment was brought into Nepal.)
- b) Letter from the company stating the completion of the transfer of the related shares duly certified by the Company Registrar's Office or such competent body.
- c) Prior approval of DOI, if the share was transferred to any foreign national.
- d) Tax clearance certificate.
- e) Custom declaration form and the approval letter if the investment was made in the form of plant, machinery and equipment.
- f) Copy of the Board of Director's resolution.

Repatriation of Dividend

Any foreign investor, wishing to repatriate his dividend from his investment as per the FITTA 1992 has to obtain a recommendation from the DOI. The foreign investor or the company has to apply to the DOI with the following documents:

- a) Documentary proof of investment made which is issued by the commercial bank. This document is needed only for the first time and again only when further investment is made by the investor,
- b) Custom declaration certificate of the import of plant machinery and equipment if the investment by the foreign investor has been made in the form of capital equipment,
- c) Auditor's report including balance sheet and profit and loss account,
- d) Tax clearance certificate.
- e) Proof of dividend declaration.

Repatriation of Loan and Interest

The industrial unit with foreign loan has to apply to the DOI for sending out the principal and interest on foreign loan obtained with the approval of DOI along with the following documents:

- a) Certificate from the commercial bank regarding the transfer of the loan amount into Nepal,
- b) Custom declaration certificate and invoice of the plant machinery if the loan was obtained in the form of machinery,
- c) Letter of approval of the loan agreement,
- d) Tax clearance certificate.

Note: Income tax on interest on foreign loan should be deducted at source as per prevailing law and deposited at the Tax Office.

Repatriation of Technology Transfer Fees:

The industrial unit with approved technology transfer agreement, trademark license agreement, management agreement, technical assistance agreement can apply to the DOI for the transfer of fees as per the agreement. The company has to submit the calculation of the amount due to the foreign technology supplier certified by the auditor along with the certificate of payment of income tax on royalty as per the prevailing tax rate.

This handbook is a valuable resource for foreign investors looking to navigate the complexities of investing in Nepal and offers comprehensive guidance on the various aspects of the investment process.

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